

**Review of the Accuracy of Vested Dual Benefits**  
**Report No. 98-23, September 30, 1998**

**Executive Summary**

This report presents the results of the Office of Inspector General's review of the accuracy of Vested Dual Benefits (VDB).

In order to improve the railroad retirement system's financial condition, the Railroad Retirement Act (RRA) of 1974 eliminated the advantage of qualifying for benefits under both the RRA and the Social Security Act. However, the 1974 Act also provided for an additional benefit to certain individuals who were considered vested under both Acts at the end of 1974. This benefit is known as the VDB and was made available to qualifying employees, spouses, and widows.

The VDB will, by design, be phased-out with the passage of time. Because all earnings requirements must have been met by the end of 1974, the number of new VDBs is expected to decline dramatically during the next decade. The Railroad Retirement Board paid out approximately \$216 million in VDBs to 129,000 beneficiaries during fiscal year 1997. The agency expects to award about 800 VDBs in 1998 and fewer than 300 in the year 2003.

Our review determined that the payment of VDBs is an error-prone process. We identified problems in all of the key elements of VDB adjudication which result in a variety of errors: benefits paid to non-entitled individuals, entitled individuals to whom no VDB was paid, incorrect entitlement dates and incorrect benefit amounts. Although we observed a wide variety of errors, they tend to be concentrated in disability cases.

The VDB benefit payment process is poorly supported by existing automated systems. Examiners must search for errors in both the claim folder and automated data before a correct payment can be issued. In addition, we observed that the Office of Programs does not maintain sufficient documentation to support decisions concerning Social Security covered employment prior to 1953.

We reviewed three samples for VDB payment accuracy and identified errors totaling \$85,000. Based on the sample findings, we estimate the financial impact of the errors in the population to be approximately \$646,000 through July 1998 which, if uncorrected, will grow to \$2,400,000 by the year 2003. This projection refers only to the impact of errors in cases adjudicated after 1993, the period to which audit sampling was limited. However, we believe that comparable errors exist in cases processed during earlier periods.

We have recommended corrective action that includes modification of existing automated systems, procedural changes, development of additional internal controls, examiner training and identification of previously adjudicated cases for correction.

The Office of Programs concurs with the findings and recommendations presented in this report and intends to take corrective action to mitigate or eliminate the future financial impact of errors.

## **Background**

The Railroad Retirement Board (RRB) paid out approximately \$216 million in VDBs to 129,000 beneficiaries during fiscal year 1997. In comparison, the RRB paid out in excess of \$8 billion in retirement benefits during the year. The average VDB payment is \$150 for employees, \$114 for spouses, and \$58 for widows.

Prior to 1975, an individual could become entitled to full benefits under both the Railroad Retirement Act (RRA) and the Social Security Act (SSA). Retirees receiving benefits under both systems had an economic advantage over career railroad employees. In addition, the payment of dual benefits placed a serious financial strain on the railroad retirement system.

In order to improve the railroad retirement system's financial condition, the RRA of 1974 integrated the two systems and eliminated the advantage of qualifying for benefits under both of them. However, it was generally considered unfair to eliminate this advantage entirely for those already retired or close to retirement.

The 1974 Act required that retirement benefits paid under the RRA be reduced by any Social Security also benefits payable. The law also provided for a restoration of Social Security benefits to certain individuals who were considered vested at the end of 1974. This restored amount is known as the VDB and was made available to qualifying employees, spouses, and widows.

The VDB will, by design, be phased-out with the passage of time. The 1981 amendments to the RRA curtailed entitlement for spouse and survivor annuitants who had not met key requirements before August 13, 1981. The vast majority of VDBs currently being awarded are paid to employees who must meet the twin requirements of 10 years of railroad service and insured status under the SSA no later than December 31, 1974. (In some cases, the annuitant must meet an earlier deadline. See Appendix I)

Because of the stringency of the eligibility requirements, the number of new VDBs awarded will decline dramatically during the next decade. The RRB expects to award approximately 800 VDBs in 1998 and fewer than 300 in the year 2003.

A VDB is never payable until the entitled individual has reached the minimum retirement age under the SSA, typically age 62. (Disabled annuitants who meet certain disability and employment requirements may become entitled at an earlier age. See Appendices i and II) Annuitants who retire before age 62 are identified by the Monthly Attainment Program (MAP) and their cases are called up for handling three months prior to the date the VDB becomes payable.

Calculation of the VDB amount requires consideration of eligibility requirements under both the SSA and the RRA as well as key milestone dates which impact payment eligibility and the amount of benefits. (See Appendix III)

Unlike the other retirement benefits administered by the RRB which are funded by employer and employee payroll taxes, the VDB is funded by appropriation.

The RRB's strategic plan states that "we will optimize accuracy in providing benefits" as the agency's first strategic objective in meeting its overall goal of providing excellent customer service. The agency has established as its goal a 99 percent accuracy rate. This audit speaks directly to the key area of agency performance.

### **Objective, Scope and Methodology**

The objective of this review was to assess the accuracy of employee VDB payments in pay status as of March 1998. In order to achieve our objectives, we:

- reviewed the applicable laws and regulations;
- reviewed 100% of employee VDB benefits with entitlement dates during January - March 1998 (207 cases) for accuracy and timeliness;
- reviewed a random sample of VDBs being paid to employee annuitants with annuity beginning dates of January 1, 1994 through December 31, 1997 for accuracy;
- reviewed judgment samples of employee cases identified to be at high risk for error;
- discussed the processing implications of the sample results with Office of Programs management and staff;
- obtained additional wage information and recalculated benefits as necessary to determine financial impact of errors.

The sample review process included tests of entitlement, calculation and payment decisions for accuracy based on law and regulation. We assessed internal controls only as they specifically related to the results of the sample review.

This review focused on cases adjudicated after 1993. We also performed limited testing of earlier cases during our judgement sampling of cases with a high risk of error.

The work was performed in accordance with generally accepted government auditing standards as applicable to the audit objectives.

Fieldwork was conducted at RRB headquarters during March through August 1998.

## **Findings and Recommendations**

Our review determined that the payment of VDBs is an error-prone process. We identified problems in all of the key elements of VDB adjudication which result in a variety of errors: benefits paid to non-entitled individuals, entitled individuals to whom no VDB was being paid, incorrect entitlement dates and incorrect benefit amounts. Although we observed a wide variety of errors, they tend to be concentrated in disability cases.

The VDB benefit payment process is poorly supported by existing automated systems. Examiners must search for errors in both the claim folder and automated data before a correct payment can be made. In addition, we observed that the Office of Programs does not maintain sufficient documentation to support decisions concerning Social Security covered employment prior to 1953.

We reviewed three samples for VDB payment accuracy and identified errors totaling \$85,000. Based on the sample findings, we estimate the financial impact of the errors in the population to be approximately \$646,000 through July 1998 which, if uncorrected will grow to \$2,400,000 by the year 2003. This projection refers only to the impact of errors in cases adjudicated after 1993, the period to which audit sampling was limited. However, we believe that comparable errors exist in cases processed during earlier periods and our recommendations are not limited to any specific operational period unless so noted. (These financial projections are intended to provide an indication of the relative magnitude of errors in the population over time and are not intended to provide a precise estimate of actual monetary impact.)

Details of our findings and recommendations for corrective action follow.

### **An Error-Prone Process**

We reviewed all 207 VDB benefits that became payable during January - March 1998 and identified 16 errors.

#### **VDBs Payable in 1998**

	Aged Retirees	Disabled Retirees	TOTAL
NO ERROR	142	49	191
ERROR	1	15	16
TOTAL	143	64	207
% Error	-	23%	7.7%

VDBs paid to disabled annuitants were more likely to be incorrect than those paid to aged retirees. We identified errors in 15 of the 64 (23%) disability cases examined.

We also reviewed a randomly selected sample of 220 VDB benefits paid to individuals with annuity beginning dates (ABD) during January 1, 1994 - December 31, 1997. We identified 12 errors in this sample.

### **Random Sample of VDBs**

	Aged Retirees	Disabled Retirees	TOTAL
NO ERROR	199	9	208
ERROR	6	6	12
TOTAL	205	15	220
% Error	2.9%	40%	5.5%

Again, disability cases were more likely to contain an error than those of aged retirees.

Based on our analysis of sample results, the risk of error is relatively low for those retiring under the age and service provisions of the RRA. However, for individuals qualifying for a retirement annuity by reason of disability, the risk of error increases dramatically.

In addition to the previously discussed statistical samples, we reviewed selected cases in order to test for specific errors among older cases. We identified 32 additional error cases; most are cases with annuity beginning dates prior to 1994.

The Office of Programs concurs with the findings and recommendations presented in this report and intends to take corrective action to mitigate or eliminate the future financial impact of these errors. The full text of management's response, including target completion dates for implementation of all audit recommendations, is presented in Appendix VI to this report.

Following is a detailed discussion of each type of error identified by the audit, the underlying cause and recommendations for corrective action.

### **Incorrect Vesting Year Determinations**

The automated system which provides examiners with key data used in claims adjudication does not always establish the correct vesting year for use in determining VDB eligibility and crediting earnings.

The vesting year determination establishes the date by which an annuitant must meet the eligibility requirements for entitlement to a VDB. By law, 1974 is the latest date by which an individual may meet these requirements. When an individual does not meet the tests for establishment of 1974 as the vesting year, it must be set at the date they last worked in the rail industry prior to 1974.

The vesting year impacts both eligibility and the amount of benefits payable. In terms of eligibility, it is advantageous to have the latest possible vesting date because it provides a longer window of opportunity in which to meet the basic requirements. In addition, the amount of benefits payable is a function of earnings; correctly identifying the period during which earnings can be credited is fundamental to an accurate computation of the VDB.

The establishment of an erroneous vesting year may result in the overpayment or underpayment of benefits. It is also possible for an incorrect vesting year to result in an award of benefits to a non-entitled individual or denial of benefits to an entitled person.

The establishment of the vesting year is done mechanically by the SEARCH system and reported to the claims examiner on Form G-90. (Form G-90 is the common name for "Certification of Service and Compensation/Basic Amount, AMC and PIA Determinations." The SEARCH system was not properly programmed to make the correct vesting year determination in all cases and sometimes erroneously establishes the year that the annuitant last worked in the railroad industry as the vesting date.

Vesting year errors occur most frequently in cases in which the retiree left railroad employment before 1974.

### **Recommendations**

We recommend that the Office of Programs:

- request procedural, input and system changes as necessary to end the problem of incorrect year determinations (Recommendation 1);
- identify prior errors including individuals whose entitlement to a VDB may not have been recognized due to an incorrect vesting year determination (Recommendation 2);
- develop front-end controls to avoid additional errors pending final action to correct the underlying cause of errors (Recommendation 3);
- develop back-end controls to ensure that new errors do not go undetected in the long-term (Recommendation 4).

### **Management's Response**

Management concurs with the audit findings and has agreed to take the recommended corrective action.

### **VDB Not Paid to Entitled Annuitants**

Internal controls are inadequate to ensure that the VDB is processed to payment in all cases.

The Monthly Attainment Program (MAP) is a mainframe computer application used to identify beneficiaries who become entitled to payment of a VDB after their ABD.

The MAP program is run each month and produces a listing of individuals who will shortly attain age 62 (the normal age of VDB entitlement) who have previously been identified as eligible for a VDB. The program allows three months lead-time based on age entitlement in order to ensure timely processing.

The MAP program searches the Master Benefit File for individuals who were identified as having met basic VDB requirements at the time their retirement benefits were initially processed. Audit testing disclosed that the MAP program does not identify all individuals who are entitled to a VDB because they may not be identified as such in the Master Benefit File. (The Master Benefit File is created periodically from data stored in the Payment Rate and Entitlement History (PREH) system. PREH is the repository for information gathered during the claims adjudication process.) Individuals not identified for payment by the MAP program may never receive the VDB to which they are entitled.

### **Recommendations**

We recommend that Office of Programs:

--identify entitled individuals who have not been paid a VDB through oversight (Recommendation 5);

--request programming changes as necessary to obtain a comprehensive means of identifying attainment cases (Recommendation 6).

### **Management's Response**

Management concurs with the audit findings and has agreed to take the recommended corrective action.

### **Automated Systems Contribute to Examiner Errors**

Claim folders and automated systems frequently contain erroneous information that must be identified and corrected by a claims examiner before the VDB can be paid correctly in disability cases.

Annuitants who are determined to be disabled within the meaning of the Social Security Act (SSA) are subject to lesser requirements when determining VDB eligibility. (See Appendix II) Such individuals are said to have been granted a disability "freeze" because, in effect, it freezes their Social Security wage record and mitigates the negative impact of low (or nonexistent) earnings during the period of disability.

Not all beneficiaries determined to be disabled under the RRA are disabled under the SSA. However, when a disabled annuitant later attains age 62 and becomes eligible for a VDB, the claim folder and on-line systems may contain erroneous data indicating a disability freeze, when none had been granted. As a result, individuals are overpaid because their VDB has been calculated using incorrect inputs or the VDB has been paid to a non-entitled individual.

Erroneous data enters the claim file and automated systems when the initial disability award is made. The existing automated systems were not adequately designed to process disability cases.

Examiners must enter a disability freeze date for all disability cases, even those in which no freeze has been granted in order to force the calculation of the initial retirement benefit. This action creates erroneous data that is passed on to other automated systems such as the master benefit file and PREH where it remains indefinitely.

When a disabled annuitant reaches age 62, normally many years after the initial disability benefit was processed, the examiner processing the VDB must search for the erroneous data and correct it before paying the VDB. If the erroneous data is not replaced with valid information, an incorrect payment results. The identification of incorrect data can be difficult because the claim folder may contain multiple documents containing conflicting information.

Because erroneous data is being stored in automated systems, this finding impacts agency initiatives for the design and implementation of folderless benefit processing using existing automated systems.

Future agency automation initiatives include plans for a new system that would eliminate the use of erroneous data in the adjudication of disability benefits. However, this project is in a very early stage of development and the systems requirements have not been finalized.

## **Recommendations**

We recommend that the Office of Programs

- develop interim procedures to assist examiners in identifying and using correct data (Recommendation 7);

- develop back-end controls to identify future errors (Recommendation 8);

- identify and correct errors of the type identified by the audit (Recommendation 9);

- ensure that systems requirements for the proposed automated system eliminate the use of erroneous data in the adjudication of disability benefits (Recommendation 10);



--assess the impact of this audit finding on pending folderless processing initiatives (Recommendation 11).

### **Management's Response**

Management concurs with the audit findings and has agreed to take the recommended corrective action.

### **Incorrect Entitlement Dates Established**

In most cases, a VDB is not payable until the annuitant reaches age 62, the Social Security retirement age. However, disabled individuals who have been granted a disability freeze may be entitled to receive the VDB from their ABD.

An annuitant who has been granted a disability freeze is entitled to payment of a VDB from their ABD (regardless of age) if they worked in Social Security covered employment during 20 of the 40 quarters preceding the onset of disability (the "20/40 rule").

Each month, the MAP system produces a listing of cases in which a disability freeze has been awarded. Claims examiners review listed cases to identify the possible impact of the freeze determination on benefit payments, including the VDB.

Audit testing disclosed that examiners do not reliably identify such cases in which the "20/40" rule applies. As a result, some annuitants are underpaid from their annuity beginning date until age 62 when they are paid the VDB based on age.

### **Recommendations**

We recommend that the Office of Programs:

--provide additional training on VDBs and the "20/40" rule to examiners processing disability freeze cases; (Recommendation 12);

--develop back-end controls to identify annuitants who may have been incorrectly denied the earlier entitlement date (Recommendation 13);

--identify previously adjudicated cases that may have been incorrectly denied earlier entitlement dates based on the "20/40" rule (Recommendation 14).

### **Management's Response**

Management concurs with the audit findings and has agreed to take the recommended corrective action.

### **Incorrect Data Used in Benefit Calculation**

The audit also identified a variety of errors that are attributable to examiner handling. These errors include:

- the use of multiple conflicting wage records;
- the omission of disability freeze data; and
- use of incorrect disability freeze data.

These errors result in both the overpayment and underpayment of benefits.

The VDB benefit payment process is not highly automated. Examiners are required to review files for key items used in determining eligibility and benefit amount. They then review pre-filled data-entry screens and make corrections as necessary. In addition to the manual nature of the VDB benefit payment process, the declining number of benefits being processed decreases the level of expertise among examiners. As the number of benefits being processed drops, staff become less sensitive to the intricacies of the work.

### **Recommendations**

We recommend that the Office of Programs:

- provide examiner training as a short term solution (Recommendation 15);
- develop a strategy which should include some combination of procedure, examiner specialization as well as back-end and/or front-end controls to ensure VDB payment accuracy (Recommendation 16).

### **Management's Response**

Management concurs with the audit findings and has agreed to take the recommended corrective action.

### **Documentation for Pre-1953 Wages Not Maintained**

The RRB's automated systems do not include detailed information concerning SS covered earnings ("wages") prior to 1953. In some cases, an annuitant's pre-1953 SS wage history must be examined in detail to determine whether a VDB is payable.

In these cases, the Office of Programs obtains a detailed pre-1953 wage history from the Social Security Administration (SSA) which is then used in adjudicating the case. The RRB retains neither the original documentation supplied by SSA nor any reference to it. It has not been the policy of the agency to document this process in any way. After a short, post-adjudication, retention period has expired the documents are destroyed. As a result, it is not possible to determine the basis of the adjudicative decision to award or deny a

VDB from records held at the RRB. In such cases, pre-1953 wage information would have to be requested from the Social Security Administration to determine the basis and accuracy of the decision.

We obtained the pre-1953 Social Security wage records of sample items that were cited for the above described lack of documentation. This additional review identified an individual who had no pre-1953 wages and did not have sufficient Social Security covered employment to support the award of a VDB.

We make no recommendation for corrective action because the number of new VDBs based on pre-1953 wages is expected to be minimal in the coming years.

Appendices available upon request.